Analysis of Profitability Ratio in Publishing Right Issue Decision at Indonesia Stock Exchange

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Abstract

This research wants to see about condition of campany in perspective profitability ratio before and after right issue. The results of this research show the conditions of company after right issue better before right issue. In statistic test with Wilcoxon Signed Ranks show insignificant in profitability before and after right issue (p-value > 0, 05). The average before right issue in 1999 is 1, 0732 and after right issue is 0, 7030. The found of right issue can make company have program investment or make new product. Source financial of right issue more safe if compare of banking, especially risk management perspective. Right issue is fund of internal company, especially of preventive right.

Keyword: profitability ratio, right issue, and financial performance

1. Introduction

According to Law no. 8, 1995 The stock market is an activity concerned with the public offering and trading of securities, companies associated with the issuance of securities, as well as institutions and professions related to the issuance of securities, as well as institutions and professions related to the effect. The capital market also has an abstract notion that brings prospective investors (investors) with issuers that require long-term funding transferable (Suad Husnan: 1996). The role performed by the capital markets is to provide facilities for the transfer of funds, particularly those intended for long-term financing, of which have the funds or known as lenders to companies that need funds or borrower. Usually in stock market run its activities using the services of a broker and underwriter.

The research here is focused on the right issue, so here will be more focused on financial performance as measured by financial ratios before and after the rights issue. With the rights issue, meaning that the shares to be issued to prospective investors, should be offered first to existing shareholders. Investors have prevemptive right time or the right to purchase securities in advance in order to maintain the proportion of holdings in these companies. Because it is right, then the investor is not bound to buy it. If investors are not willing to exercise its right, then he can sell it right.

According to Brealey and Myers (1996:402): "The common stockholders as the owners of the corporations have a preemptive to subscribe to new offerings. These rights have been interpreted in a limited way.

Behold, to assess the performance of the company there are a variety of ways. The way it really depends on the intent and purpose of the establishment of the company, whether the company's goals for economic or non-economic. It's like saying Muchamad Syafruddin (1997) where "Profitability is the goal of the company that is economical and can therefore be used as a measure of corporate performance." Understanding profitability itself is a company's ability to generate a return on utilization of economic resources available. Issuance of new equity by management generally aims to strengthen its capital structure and conduct investment opportunities that require large funds.

If the funds raised from events such as a rights issue is used by management to finance the debt that has matured or fund a project that has a NPV of zero or even negative, then it is bad news for investors, they will judge that management is less able (no accountability) to generate income and good cash flow in the future. Here will raise fundamental questions how true financial performance of companies that conduct a rights issue in terms of solvency perspective.

The difference of this study with previous studies is the study analyzed the financial performance in the form of solvency ratios, and profitability of the company that does the right issue at the Jakarta Stock Exchange. While Matthew Rose (1998) focuses on the rights issue to improve the company's financial performance. The difference of this study with research Vito J. Racanelli Barron (2003) is to provide additional Barron other policies to improve the financial performance of the company by cutting costs does not need to imitate the transformation or changes made by Telkom. The difference of this study with Sri Sulistyanto and Haris Wibisono (2003) is a Sri Sulistyanto and Haris Wibisono assess performance degradation after seasoned equity offerings due to the opportunistic attitude of managers, that is managers to manipulate the reported earnings higher than actually occurred, so that in the long run market will find out his mistake and make corrections that resulted in the company experiencing a decrease in performance. The difference in this study with research conducted by Robert Cyran and Mike Monnely (2004) is Robert Cyran and Mike Monnely assess the liquidity reduction caused a decline in financial performance that the company needs additional funds in order to increase liquidity back is to do a rights issue.

So the purpose of this study was to compare the company's financial performance before and after the rights issue in terms of the perspective of profitability ratios.

Based on the description above authors intend to conduct a study entitled "Profitability Ratio Analysis indecision Publishing RightsIssue".

1.1. Problem Identification

The identification problem in this study is "What the decision to publish a rights issue in the ratio of members influence corporate profitability."

2. Literature Review

2.1. Definition of Right Issue

Rights issue is giving existing shareholders the right to pre-emptive shares of the issuer to be sold for a nominal price given. Usually it is intended the issuer to increase the company's capital constraints. Rights issue by Brealy and Myers (1996:402) is: "The common stockholders as the owners of the corporations have a preemptive right to subcripe to new offerings. These rights have been interpreted in a limited way. "While Praise Harto (2001) says:" Right issue an offer of new securities to the shareholders of the company to buy new shares at a certain price at a certain time anyway. "

Furthermore Syahrul and Nizar (2000:737) in Fazli Sham and Harianto (2003) defines the rights issue, "The rights granted to the holders of existing shares in a company related to the issuance of new shares with rights is related to the owners of shares that have been getting quotes for add stock or taking the new shares at a price that is offered to the existing shareholders. "

Specifically rights issue means that the company obtained additional funding is not coming from outside (external). It's as proposed by Jaelani La Masindonda, Ghozali Maski and Idrus. (2001) that "Most companies tend to use their own capital as a permanent capital rather than foreign capital is only used as a supplement when necessary funds insufficient." This is reinforced by the opinions Rina Adi Kristianti (2003) "the costs are cheaper on internal funding sources caused the company to make investment decisions will take into account the availability of internal funding sources." With the availability of existing funds the company will estimate how the need or lack of funds that must be met and then think of the way of where the funds can be obtained for the better.

2.2. Finantial Ratios

Financial ratios are the figures obtained from the comparison of one financial statement and other places that have relevant and significant relationship (Sofyan Syafri Harahap, 1998:297).

That the use of financial ratios would give a relative measure of the condition of the company, to determine the condition of the company will be known wellness company. Relative side here is that as proposed by Helfert (1991) in Warsidi and Bambang Agus Pramuka (2000) in which "financial ratios is not an absolute criterion." In fact, the financial ratio analysis is only a starting point in the analysis of corporate finance.

2.3. Financial Ratio Analysis

According to Van Horne and Wachowicz (1995:133) that: "To evaluate the financial condition and performance of a firm, the financial analyst needs certain yardstick. The yardstick frequently used is a ratio, index, two pieces of financial relating the data of to each other. "

On the other hand Gitman (2000:124) says that, "Ratio analysis involoves methods of calculating and interpreting financial ratios to asses the firm's performance. The basic inputs to ratio analysis are the firm's income statement and balance sheet. "

2.4. Profitability ratios

Profitability ratios useful to demonstrate the company's success in generating profits. It's like saying Napa J. Awat (1999:71) that "the profitability of the entire capacity of existing capital to generate profits."

Company's desire to make a profit (profitability) gives the sense that the company is more economical. It's as proposed by Muchamad Syafruddin (1997) "Among the objectives of the company, profitability is the goal of the company that is economical and can therefore be used as a measure of corporate performance." Erich A. Helfert (2000:98) says "Profitability is the effectiveness with roomates management has employed both the total assets and the net assets as recorded on the balance sheet." Said Bodie, Kane, Marcus (1996:234) that "Profitability ratios are indicators of a firm's overall financial health."

2.5. Hypothesis

The hypothesis of this study is, "There is a significant difference in the financial performance of companies on profitability ratios before and after issuing rights issue."

3. Method

3.1. Research Object

The object of study here is the company doing right issue in 1999. And seen two years before and two years after.

3.2. Research design

This study examines only in terms of profitability ratios and keptusan right issue. While the analysis is done through a quantitative approach by using statistical methods to test the hypothesis.

3.3. Operational Variables

The variables used are:

a. Financial performance in the form of financial ratios before the rights issue is $\mu 1$
b. Financial performance in the form of financial ratios after the rights issue is $\mu 2$

The variables are: Profitability ratios, which demonstrate the company's ability to generate profits,as a result of ne tincome after deducting expenses,namely:

- Net Income to Sales ratio, with the following formulation:

$$\frac{\text{Profit after tax}}{\text{sale}}$$

How large a percentage of revenue generated from each sale. Sofyan Syafri (1998:304) the greater this ratio the better because it is the company's ability to profit quite high.

3.4. Population Research

This study uses the entire population of as many as 20 companies. The company name was PT. Delta Djakarta Tbk, PT. Ultrajaya Milk Industry & Trading Company Tbk, PT. Ricky Putra Globalindo Tbk, PT. Budi Acid Jaya Tbk, PT. Eterindo Wahanatama Tbk, PT. Tubindo Citra Tbk, PT. Bayer Indonesia, PT. Merck Indonesia, PT. Intervest Corporation Bank Century Tbk, PT. Bank Danamon Tbk, PT. Global Bank International Tbk, PT. Mayapada Bank Indonesia Tbk, PT. Bank Negara Indonesia Tbk, PT. Bank Niaga Tbk, PT. Medco Energy Corporation Tbk, PT. Bank Universal Tbk, PT. Bank Lippo Tbk, PT. Bank Pan Indonesia Tbk, PT. Astra International Tbk, and PT. Bukit Sentul Tbk.

3.5. Data Collection Techniques

The data will be used in this study obtained by:

1. Field Research
   The data were collected in the form of financial reports from 1997 to 2001 for companies that conduct a rights issue in 1999.
2. The literature research
   The research literature can be obtained through literaturs, by studying books, journals, research, magazine and internet access results from the website www.jsx.co.id and other writings.

- Data test Method

In this research, financial ratios of the sampled data in this research are a ratio scale data.

1. Determining the variables to be tested.

μ 1 = the average performance of the company before the rights issue in the ratio of profitability
μ 2 = the average performance of the company after the rights issue in the ratio of profitability

The statistical hypotheses are:

Ho: μ 1 = μ 2 (there is no significant difference in the financial performance of the company before and after the rights issue at a ratio of profitability).
H1: μ 1 <μ 2 (there is a significantly improved financial performance after the rights issue at a ratio of profitability).
Criteria test: Ho accepted if t compute <t table at α = 5% before testing Ho is rejected if t compute> t table at α = 5%.

2. Normality Test Data

To find out whether the data scatter normally or not there should be testing the data for normality using the Kolmogorov Smirnov test with the following hypotheses:
Ho: Y is normally distributed
H1: Y is not normally distributed

Steps Kolmogorov Smirnov Test:

1. Observations Y1, Y2, ..., Yn, sorted from smallest to largest value, then turned into raw numbers z1, z2, ..., zn using the formula $z_i = \frac{Y_i - \bar{Y}}{s}$, where $\bar{Y} = \frac{\sum Y_i}{n}$ = average value of observations and $s = \sqrt{\frac{\sum (Y_i - \bar{Y})^2}{n-1}}$ standard deviation = value of observation.
2. For each of these raw numbers, then calculate the odds F (ei) = P (z $\leq$ zi) using the standard normal distribution lists.
3. Calculate the proportion of Y1, Y2, ..., Yn $\leq$ Yi. If the proportion is expressed by S (Yi), then $s(y_i) = \frac{(y_1, y_2, \ldots\ldots y_n \leq y_i)}{n}$

4. Compute the difference F (Yi) - S (Yi) and then specify the absolute price.
5. Defin e, $D = Sup\left|\mathrm{S}(\mathrm{Y}_i) - \mathrm{F}_0(\mathrm{Y}_i)\right|$

Sup show is the suprimum value or the greatest value obtained from the absolute difference in prices, then compare it with the critical value from the table for the Kolmogorov Smirnov (Dtabel). The criteria is: Reject H0 if D ≥ Dtabel and inferred data not normally distributed.

3. Determination of Statistics Test

The statistical test used in this study to see the difference in financial performance before and after the rights issue is marked Wilcoxon rank test for paired Data

A. Assumptions

- Data for the analysis consists of n different Di = Yi - Xi. Each partner outcome measurements (Xi, Yi) is obtained from observations of the same subject or to subjects that have been fixed up by a variable or more. Pairs (Xi, Yi) in a sample obtained randomly.
- the difference above represents in the results of observations of a continuous random variable.
- Distribution of disparate populations are symmetric
- The difference in free.
- The difference was at least an interval scale.

B.Hypotheses

- (twosided)
  H0: Median disparate population sequal to zero
  H1: Median disparate populations are not equal to zero.

C. Statistics Test

Statistical tests were used to test the hypotheses that have been put forward author using Wilcoxon Signed Ranks Test. For statistical calculations, the authors used a computer program SPSS for Windows ver.10.

The manual method is used to test the hypothesis is as follows:

- Calculate the difference of each pair of measurements and note signs.
  In = Yi-Xi.
- Assign ranks to the absolute values of these disparate from the smallest to the largest, the ratings for: $|D_i| = |Y_i - X_i|$
- In front of each ranking, list of different signs that the absolute value of the corresponding result in rating

4. Results and Discussion

4.1.Research Result

Data in this research is processed by using SPSS program (Statistical Product and Service Solutions) who first assisted with Microsoft Exel. The data required for processing the data in this study is the financial report on companies that go public, but exclusively in companies that conduct a rights issue that is only in 1999 with the number of 20 companies.

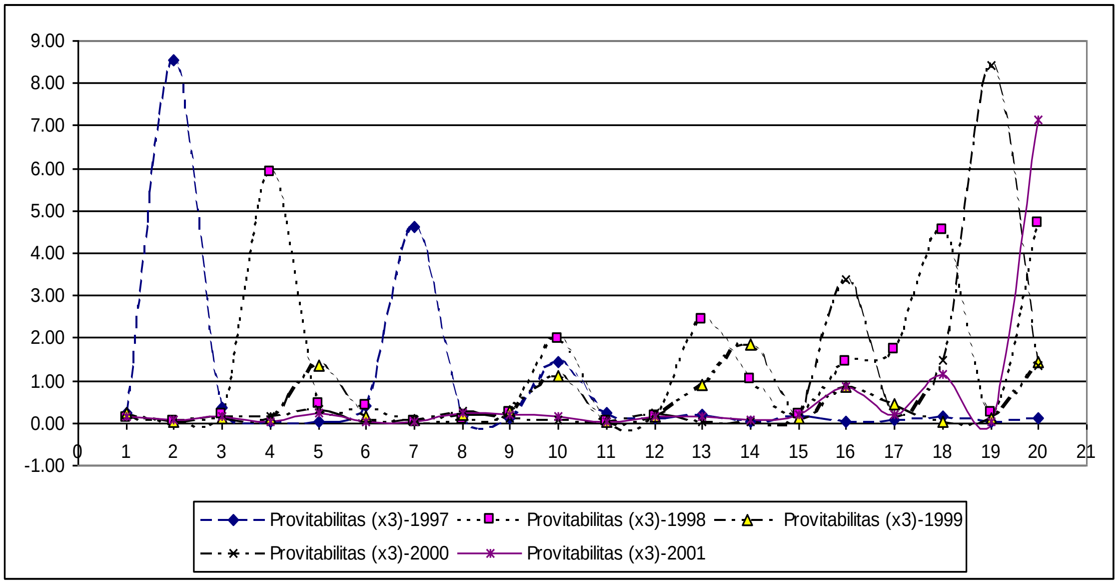
4.2. Data Analysis and Hypothesis Test

For companies that announced the rights issue is divided into two, namely the two-year period prior to the rights issue and two years after the rights issue. Two-year period prior to the rights issue in 1997 and 1998. And the two-year period after the rights issue in 2000 and 2001, which further seen how the profitability.

4.2.1. Profitability Ratios Financial Data Preview 20 companies that conduct a rights issue in 1999

Based on five years of financial ratios are used as research data for a variable to observe the profitability ratios can be described as the following grap.

Figure 4.1. Variables Charts Financial Ratios 20 companies profitability rights issue in 1999 the period of 1997 to 2001



4.2.2 Normality Data Test

Before testing the hypothesis, first financial ratios calculated for each sample firm. Testing data normality using Kolmogorov Smirnov test shows the data distribution is not normal financial ratios. The test results can be seen in Table 4.1. Seen the test results significantly (p <0.05), which means the data are not normally distributed.

Table 4.1. Normality Data Test Table Financial Ratios

Finacial Ratios	Kolmogorov-Smirnov		
	Statistic test	Df	p-value
Liquidity before right isuue	0.2226	20	0.0105
Luquidity after right issue	0.1928	20	0.0497
Solvability before right issue	0.2887	20	0.0001
Solvability after right issue	0.2610	20	0.0009
Profitability before right issue	0.2241	20	0.0097
Profitability after right isuue	0.4223	20	0.0000

Based on the results of the normality test data showing the results of all financial ratios are used as research variables not normally distributed. So to test the differences in financial performance before and after the rights issue in 1999 for companies that go public on the Jakarta Stock Exchange can not use the test statistic 't' (parametric statistics) and to see the difference used Wilcoxon Signed Ranks Test or Nonparametric Test (Wayne: 1989:175).

4.2.3 Comparison of Profitability Ratios Before and After the Right Issue

To see a comparison of the financial performance in the form of profitability ratios can be show in the table below.

Tabel 4.2. Table Value Average Financial Ratio Data

	Average	Std. Deviasi	Minimum value	Maximum value
Profitability before Right Issue	1.0732	1.2041	0.1050	4.2850
Profitability after Right Issue	0.7030	1.3094	0.0300	4.2400

4.2.3.1 Comparison of Profitability before and After the Right Issue

Average profitability before the rights issue was obtained tahun1999 1.0732 (Table 4.3) and for the profitability obtained after rights issue amounting to 0.7030. Seen in average profitability before the rights issue in 1999 is greater than profitability after the rights issue in 1999. To test whether the difference in average profitability after the rights issue and the average profitability before the rights issue meaningful (significant) or not used Wilcoxon Signed Ranks Test with the following hypothesis:

H0: There is no difference between the average profitability after the rights issue and the average profitability before the rights issue

H1: There is a difference between the average profitability after the rights issue and the average profitability before the rights issue.

From the results of testing the difference in average financial ratios for profitability variables obtained test results as in Table 4.6.

Table 4.3. Test Result Table Variable Profitability

	Profitability after Right Issue – Profitability before Right Issue
Z-statistik	-1.419
p-value.	0.156

From the table above were obtained count value Z = -1.419, Z count value is the test statistic is compared with the value of Z at a normal table.

At significance level (α) = 5% ztabel obtained for 1.96. By comparing zhitung with ztabel, based on the test criteria are as follows:

Ho accepted when: $-z_{tabel} \leq z_{hitung} \leq z_{tabel}$

Ho rejected: $z_{hitung} > z_{tabel}$ or $z_{hitung} < -z_{tabel}$

Because $-z_{tabel} = -1,96 \leq z_{hitung} = -1,419 \leq z_{tabel} = 1,96$ then Ho is accepted. So with a 95% degree of confidence is concluded that there is no significant difference between the average profitability after the rights issue and the average profitability before the rights issue.

From the test results statistically using the Wilcoxon Signed Ranks Test results showed no significant difference between profitability before the rights issueand profitability after the rights issue (p-value>0.05).

So it can be concluded even seen the average profitability before the rights issue is greater than the average profitability in 1999 after the rights issue, but the difference was not significant (meaningful) is statsistik or can not be said that the real decline in profitability for the 20 the company go public on the Jakarta Stock Exchange after the rights issue in 1999.

4.3. Discussion

- Profitability Before and After the Right Issue

Tests statistically using Wilcoxon Signed Ranks Test results showed no significant difference (significant) between profitability before the rights issue and profitability after the right issue (p-value> 0.05). So it can be concluded even seen the average profitability before the rights issue is greater than the average profitability in 1999 after the rights issue, but the difference was not significant (meaningful) statistically or not it can be said that the real decline in profitability for the 20 companies go public on the Jakarta Stock Exchange after the rights issue in 1999. Yet the rise in the past two years (2000 and 2001) after doing a rights issue is expected due to the rights issue the company uses these funds to finance long-term investments, causing the results to be seen or not the increase significant because within two years only after doing a rights issue. That way it is possible if the proceeds from the rights issue have not seen the results in the two years after doing a rights issue due to company policy to use these funds over to the new investment can be seen in the long-term results.

Activities undertaken by the company to use the proceeds from the rights issue to be used to finance long-term projects are intended that the company would be able to make a profit so the company will be able to meet its obligations.

Here it is understood that the company is doing right issue is a company that needs funds in order to strengthen the company's finances. Hence, in the rights issue before the company experiences financial difficulties led to the company's financial performance declined. As if the company's profitability is still an increase in a short time it is due to the funds used by the company to mobilize and carry out investments have not seen the results, coupled with the cost of capital which increased. That the investment needed for early expenses, so that when the company made a rights issue at an early period, in which time investment required to purchase these items or do a lot of expenses load, new engine, cost engineers, building rental, the yield advantage of these investments can not be seen in the short term.

It's like saying Yustina and Titik (2001) "profitability ratio is intended to measure the efficiency of the use of corporate assets." Efficiency here can also be linked to the company's ability to streamline and manage available funds in accordance with the corporate plan how to manage the proceeds from the rights issue to can provide benefits (profitability) of the company. Besides profitability ratios can also be expressed as a ratio used to measure the effectiveness of management seen from the profit generated on sales and investment.

From the results above, it can be understood that the policy of the company to conduct a rights issue has made the company to obtain additional funds so allows companies to use and process the fund, in the hope that later can provide benefits (profitability) to the company and will certainly improve the performance of the company.

5. Conclusion and Recomendations

5.1. Conclusion

a. The results showed profitability ratios are significant differences in the two periods before (1997 and 1998) and after (2000 and 2001) did a rights issue is not a significant increase in the occurrence of two periods after (2000 and 2001)executionoftherightsissue.
b. The increase is very likely due to the company's use of the proceeds from the rights issue to finance long-term investments that can not be seen in a two-period of time or use those funds to pay the debt was due.

5.2. Recomendation

a. In this study, the authors conducted a study on the profitability ratios in seeing before and after the rights issue. For further research is expected to be further developed as to include non-financial analysis that have not been included in this study.
b. Be expected this research will benefit the company as consideration in analyzing alternative search of additional funds by way of a rights issue in order for funds to be collected can be allocated to the maximum extent possible the company's future performance will increase, especially in the profitability of the company.

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